

February 11, 2000

TO: Senator Sid Snyder, Chair
Senator Dan McDonald
Representative Hans Dunshee
Representative Brian Thomas
Fred Kiga, Director, Department of Revenue
Marty Brown, Director, Office of Financial Management

FROM: Chang Mook Sohn, Executive Director
Office of the Forecast Council

SUBJECT: FEBRUARY 10, 2000 REVENUE COLLECTION REPORT

General Fund-State receipts were very close to the forecast in the current collection period and remain close to expectations cumulatively for the three months since the November forecast. Collections for the month were \$822,000 below the estimate, increasing the cumulative shortfall since the November forecast to only \$5.0 million. The small variance is really not indicative of the strength of economic activity. Although General Fund-State receipts were less than expected both for the current month and cumulatively since November, virtually all of the shortfall is attributable to Lottery General Fund transfers (and, to a lesser extent, the Department of licensing receipts). Lottery receipts are not directly linked to economic activity and the shortfall in General Fund collections reported by the Department of Licensing was for the most part due to an accounting adjustment. Tax receipts that are closely tied to the economy were for the most part higher than expected for the month and are higher than expected for the three months since the November forecast. Revenue Act (sales, business and occupation, use and public utility taxes) which are most closely tied to economic activity are up both for the month and cumulatively since the November forecast. Moreover, revenue is actually stronger than suggested by the reported variance. Several special factors in the last three months understate the revenue variance and the strength of economic activity as measured by tax receipts. Excluding special factors, cumulatively General Fund-State collections would be \$14.5 million higher than the estimate, rather than the \$5 million reported shortfall.

Revenue act receipts were \$5.3 million above the estimate for the month and are \$2.3 million above the forecast cumulatively since November. The Revenue Act variance is distorted due to three special factors. Two of these factors, several large and unexpected refunds and a smaller than expected payment from a specific assessment, understate Revenue Act collections relative to the estimate. The third, two unusually large and unexpected (\$7.6 million) use tax payments overstate the Revenue Act variance. Without these special factors, Revenue Act receipts would be \$4 million above the estimate for the month and \$21.8 million higher than expected cumulatively since November.

Revenue Act collections in the January 11- February 10 collection period increased 5.7 percent from the year-ago level, adjusting for legislation and special factors. Collections this period primarily reflect December 1999 business activity of monthly taxpayers, October through December activity of quarterly filers, and calendar year 1999 business of annual taxpayers. Revenue Act growth in December was less than last month's 7.0 percent increase but up from October's 4.7 percent increase. December's growth is about the same as the 5.8 percent average growth for the fourth quarter. Although Revenue Act growth has slowed from 7.1 percent in the third quarter it is still a little stronger than we assumed in the forecast. Stronger than expected revenue growth this quarter reflects the strength of the economy. Real Gross Domestic Product (GDP) grew at a much higher than expected 5.8 percent rate in the fourth quarter of 1999 as strong consumer spending more than offset a still weak but improving export sector. Growth in the fourth quarter boosts real GDP growth to 4.0 for the year, the third year in a row of 4.0 percent or better. At the state level, employment is up and income is way up from what was assumed in the November forecast. The forecast expects economic growth to continue although at a slower pace.

Preliminary data on taxes paid during the January 11- February 10 collection period shows above average growth in the retail trade sector, with double-digit growth again in the furniture and household equipment sector. Within trade, only tax payments reported by the eating and drinking sector were weak. Outside retail trade, services reported above average growth in tax payments. However, the manufacturing and finance, insurance and real estate sectors were weak, with both sectors reporting declines in tax payments (large double-digit declines in the case of manufacturing.)

Non Revenue Act General Fund taxes collected by the Department of Revenue were \$2.2 million above the forecast in January. Cigarette and liquor taxes were a little higher than expected for the month, however, most of the positive variance in Non Revenue Act receipts was from the "other" category. This was primarily due to higher than expected leasehold excise tax receipts and to an accounting adjustment. Estate, property and real estate excise tax receipts were less than expected for the month. Cumulatively, Non Revenue Act taxes are \$5.3 million above the forecast. Real estate excise tax, cigarette tax and "other" receipts are a little higher than expected, while property, estate and timber excise tax receipts are somewhat less than expected in the three months since the November forecast.

Real estate excise tax payments in January (reflecting closings in December) were weak. After a strong November, December's statewide real estate activity declined 6.4 percent from the year-ago level, the largest decline since June. Activity in King County remained strong with activity up 11.8 percent, but Snohomish county reported a 17 percent decline in activity and activity outside the Seattle PMSA was down 18.3 percent from a year-ago.

Other agencies' collections were \$8.3 million below the forecast in January. Department of Licensing General Fund collections were \$2.6 million less than anticipated. This is primarily due to an accounting adjustment correcting overstatement of last month's receipts. Cumulative their General Fund collections are \$0.2 million below expectations. The lottery's General Fund deposits continue to suffer. General Fund transfers were \$5.7 million below the estimate for the month. Cumulative, lottery transfers are \$11.6 million less than expected.

The attached Table 1 provides a comparison of collections with the November forecast for the January 11 - February 10, 2000 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

CMS:cg

Attachments

TABLE 1
Revenue Collection Report
February 10, 2000 Collection Report - Based on the November 1999 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
January 11 - February 10, 2000				
Department of Revenue-Total	\$958,875	\$966,302	\$7,428	0.8%
Revenue Act** (1)	880,163	885,424	5,261	0.6%
Non-Revenue Act(2)	78,711	80,878	2,167	2.8%
Liquor Sales/Liter	10,216	10,589	373	3.6%
Cigarette	4,909	5,229	320	6.5%
Property (State School Levy)	13,257	12,422	(835)	-6.3%
Estate	7,978	7,884	(94)	-1.2%
Real Estate Excise	33,588	32,972	(616)	-1.8%
Timber (state share)	0	0	0	NA
Other	8,763	11,783	3,020	34.5%
Department of Licensing (2)	1,696	(881)	(2,577)	-152.0%
Lottery (2)	10,310	4,637	(5,673)	-55.0%
Total General Fund-State***	\$970,881	\$970,058	(\$822)	-0.1%
Cumulative Variance Since the November Forecast (November 11 - February 10, 2000)3				
Department of Revenue-Total	\$2,813,913	2,821,492	7,579	0.3%
Revenue Act** (3)	2,062,513	2,064,787	2,274	0.1%
Non-Revenue Act(4)	751,400	756,705	5,304	0.7%
Liquor Sales/Liter	24,006	24,570	564	2.4%
Cigarette	14,386	16,083	1,697	11.8%
Property (State School Levy)	551,994	547,956	(4,038)	-0.7%
Estate	23,109	22,917	(193)	-0.8%
Real Estate Excise	92,485	97,221	4,736	5.1%
Timber (state share)	5,673	5,483	(190)	NA
Other	39,747	42,474	2,727	6.9%
Department of Licensing (4)	2,964	2,029	(936)	-31.6%
Lottery (4)	30,450	18,851	(11,599)	-38.1%
Total General Fund-State***	\$2,847,327	\$2,842,371	(\$4,956)	-0.2%

1 Collections January 11 - February 10, 2000. Collections primarily reflect December 1999 activity of monthly taxpayers, Oct.-Dec. activity of quarterly filers and 1999 activity of annual filers.

2 January 1-31, 2000 collections.

3 Cumulative collections, estimates and variance since the November forecast; (November 11-February 10, 2000) and revisions to history.

4 Cumulative collections, estimates and variance since the November forecast; (November 1999-January, 2000 and revisions to history.

* Based on the November 1999 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission, about 97% of total General Fund-State.

TABLE 2
January 10, 2000 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections Preliminary</u>	<u>Revised</u>	<u>Difference Amount</u>	<u>Percent</u>
December 11- January 10, 2000				
Department of Revenue-Total	\$895,545	\$895,545	(\$0)	-0.0%
Revenue Act (1)	584,677	584,677	(0)	-0.0%
Non-Revenue Act(2)	310,868	310,868	0	0.0%
Liquor Sales/Liter	7,141	7,141	0	0.0%
Cigarette	5,829	5,829	0	0.0%
Property (State School Levy)	253,608	253,608	0	0.0%
Estate	6,384	6,384	(0)	-0.0%
Real Estate Excise	31,793	31,793	0	0.0%
Timber (state share)	0	0	0	NA
Other	6,113	6,113	(0)	-0.0%
Department of Licensing (2)	1,935	1,935	0	0.0%
Lottery (2)	4,129	4,129	0	0.0%
Total General Fund-State***	\$901,609	\$901,609	\$0	0.0%

Cumulative Variance: November 11 - January 10, 2000 & Revisions to History

Department of Revenue-Total	1,855,190	\$1,855,190	(\$0)	-0.0%
Revenue Act (3)	1,179,363	1,179,363	0	0.0%
Non-Revenue Act(4)	675,826	675,826	0	0.0%
Liquor Sales/Liter	13,982	13,982	(0)	-0.0%
Cigarette	10,854	10,854	(0)	-0.0%
Property (State School Levy)	535,534	535,534	0	0.0%
Estate	15,033	15,033	(0)	-0.0%
Real Estate Excise	64,249	64,249	0	0.0%
Timber (state share)	5,483	5,483	0	NA
Other	30,691	30,691	(0)	-0.0%
Department of Licensing (4)	2,910	2,910	(0)	-0.0%
Lottery (4)	14,213	14,213	0	0.0%
Total General Fund-State***	1,872,313	\$1,872,313	(\$0)	-0.0%

P-Preliminary. Reported in the January 10, 2000 collection report.

R Revised data.

1 Collections December 11 - January 10, 2000. Collections primarily reflect November 1999 business activity of monthly taxpayers.

2 December 1-31, 1999 collections.

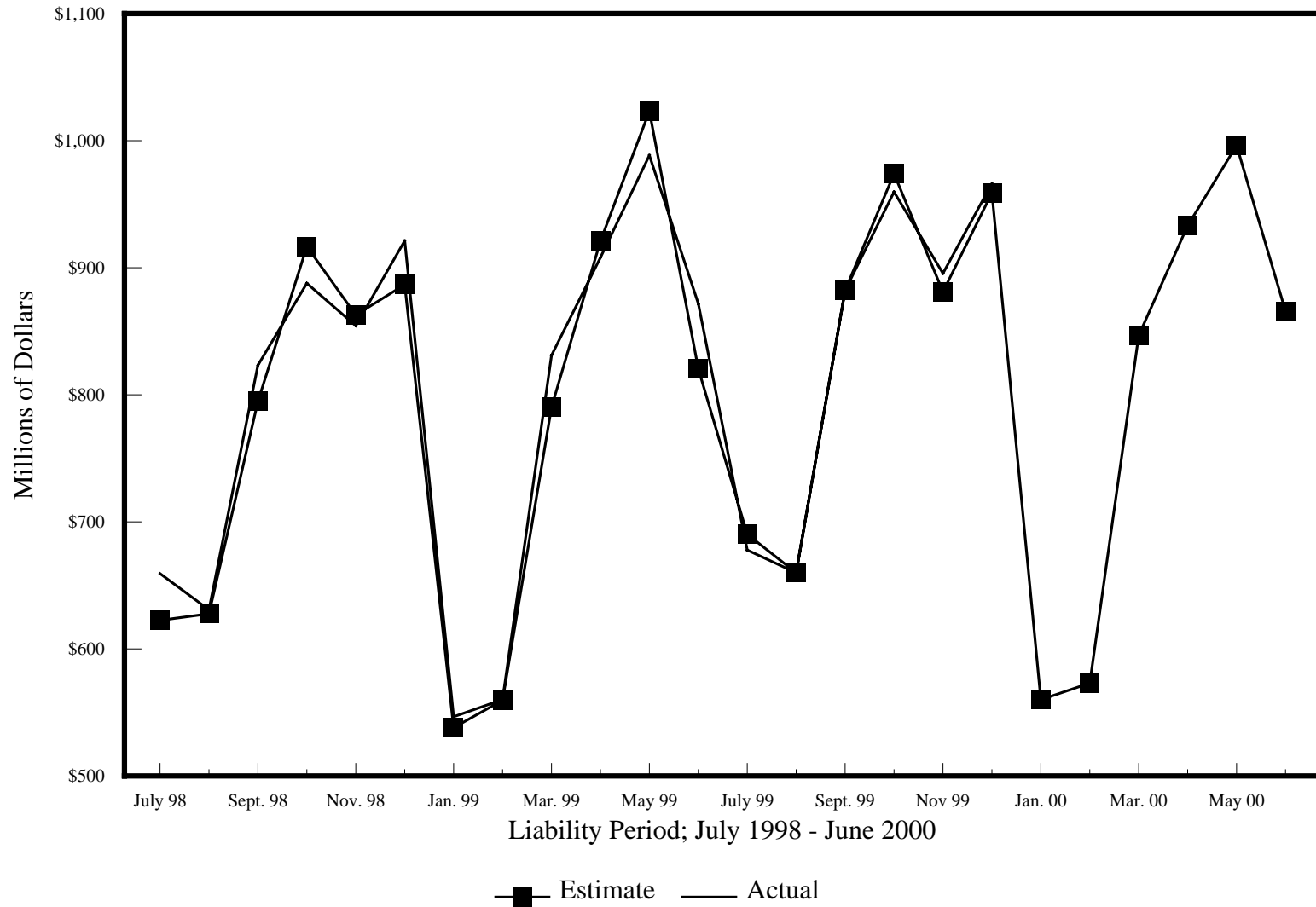
3 Cumulative variance for since the November forecast: November 11 - January 10,2000 & revisions to history.

4 Cumulative variance: since the November forecast (October & November 1999) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

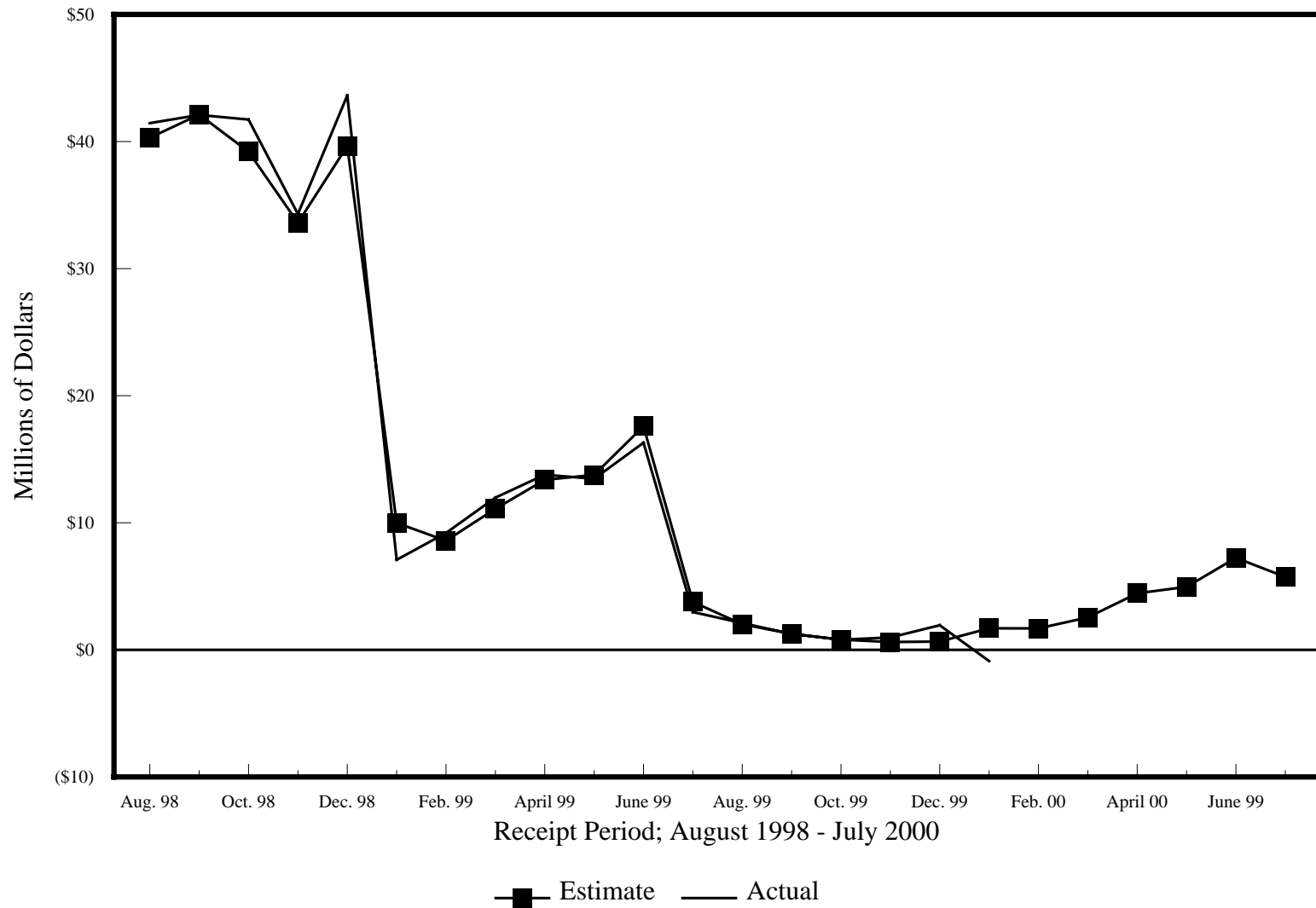
Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to June 2000



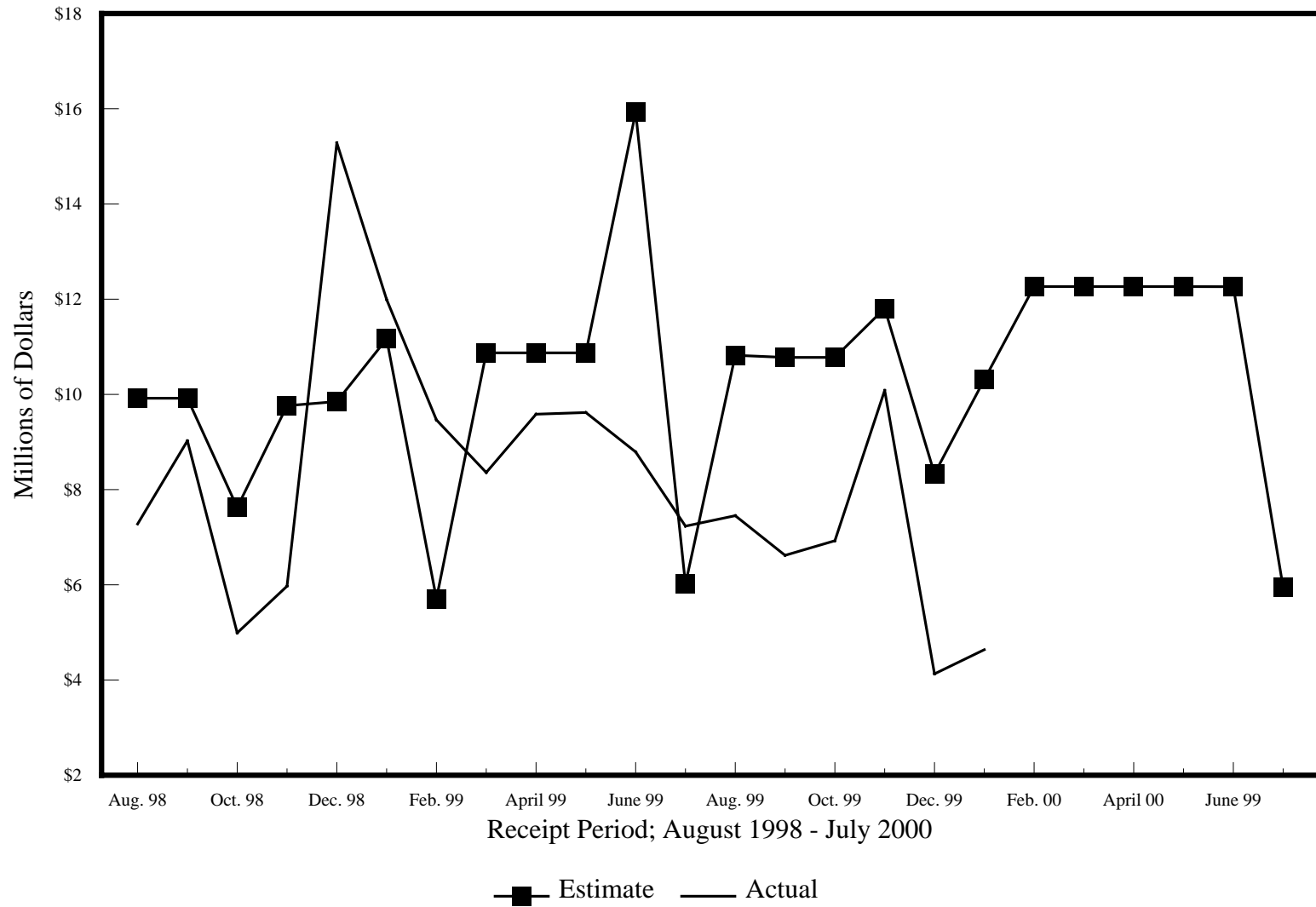
Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to July 2000



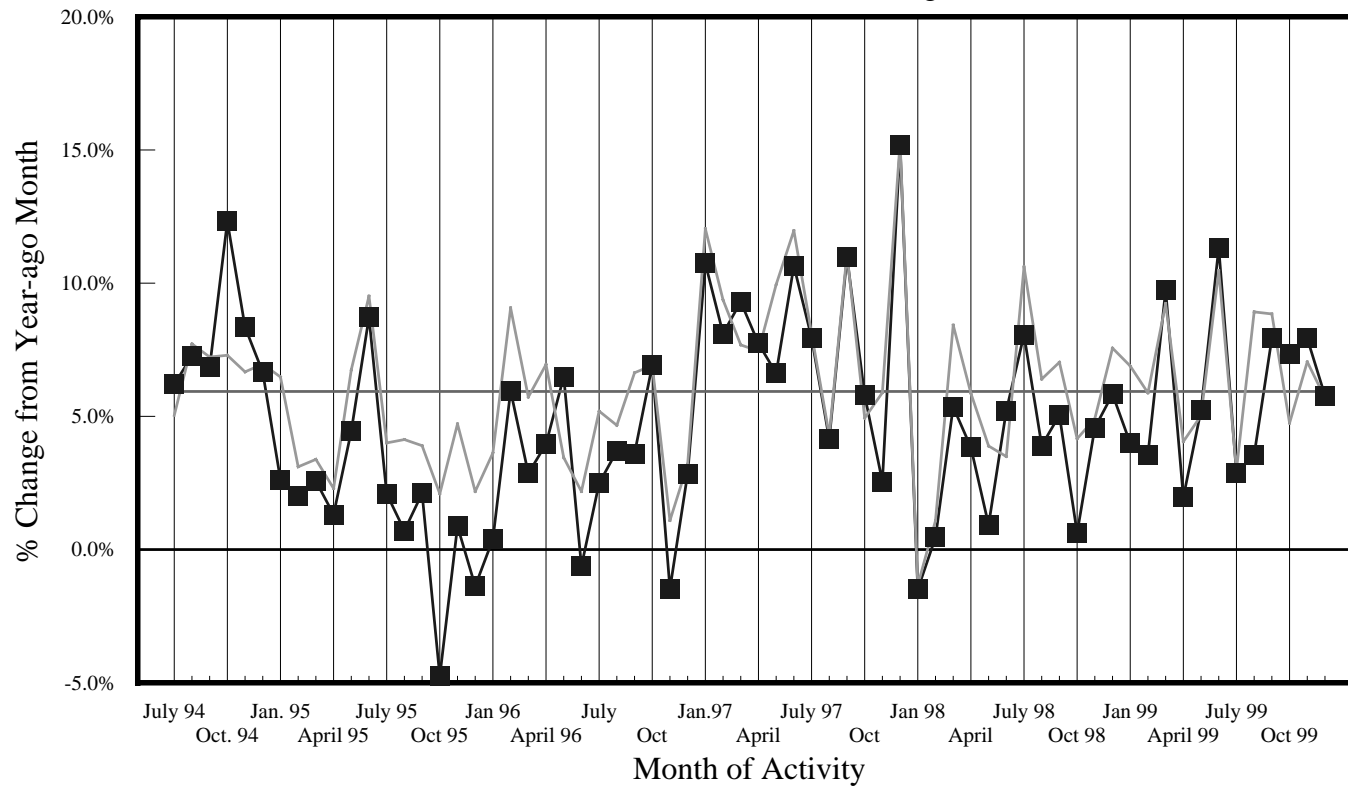
Lottery General Fund-State Transfers, Actual vs. Estimate

August 98 to July 2000



Revenue Act Net Collections

Year-over-Year Percent Change



■ % CH from year-ago month

— Ave. Growth fys: 95-98: 5.9% (Adj.for Legislation)

— % Change from year-ago, adjusted for large audits & legislation